

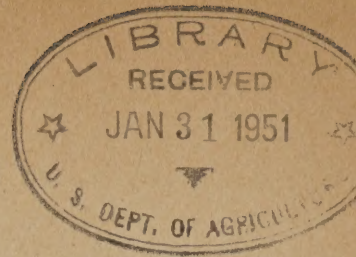
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2 U.S. UNITED STATES DEPARTMENT OF AGRICULTURE
Rural Electrification Administration,
Washington 25, D. C.

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X ACQUISITION OF TELEPHONE SYSTEMS X

Title II, Sec. 201, of The Rural Electrification Act of 1936, as amended, provides, among other things, for "financing the improvement, expansion, construction, acquisition, and operation of telephone lines, facilities or systems to furnish and improve telephone service in rural areas." The word acquisition as it appears in the quoted section of the Act is apt to raise such logical questions in one's mind as to what extent and under what circumstances will REA finance telephone acquisitions?

Reference to The Report of the House and Senate conferees on the telephone legislation (H. Rep. No. 1450) should prove helpful in this regard because it indicates the authority to finance acquisitions includes "authority for loans for the purpose of the acquisition of one company by another or of lines or facilities, where such acquisition is merely incidental to the main purpose which must be the improvement or extension of rural telephone service."

It becomes evident, then, that any telephone acquisition REA finances must clearly meet the "incidental" requirement.

To those of us who are familiar with the REA electric program, the "incidental to the main purpose" requirement is not new or unusual and we are accustomed to viewing each acquisition in the light of the larger objectives of the program. Of course, careful analysis must attend the consideration of every acquisition because the mere inclusion of a proposed acquisition in the

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borrower's plans doesn't mean that it is necessarily essential to program objectives or will, in fact, meet the "incidental" requirement. Therefore, just as much emphasis must be placed by the applicant, and by the REA representatives giving guidance, on the reasons why an acquisition should be made as on the assembling of information about the proposed acquisition.

Although merely suggestive of the type of information needed to substantiate the processing of an acquisition proposal, the following items are offered for your consideration. Not all of the items will necessarily apply in each case.

1. _____ subscribers presently receiving a poor quality of telephone service will receive improved service thru the acquisition, rehabilitation and/or improvement program proposed. The approximate cost of the acquisition will be \$_____. The approximate cost of rehabilitation and/or improvement will be \$_____.
2. _____ miles of new rural line, direct extensions to the system to be acquired, can be constructed to serve _____ subscribers at an over-all estimated cost of \$_____. To serve these same subscribers without the acquired lines would cost \$_____. (The latter statement assumes that it would be possible to procure the necessary right-of-way, duplication would permit of financial feasibility, etc.)
3. The proposed acquisition will render it feasible to construct _____ miles of new rural lines (not direct extensions) to serve approximately _____ subscribers at an over-all estimated cost of \$_____. (Note: such lines may be located anywhere in the service area of the borrower in an effort to accomplish area telephone service.)
4. Certain system improvements to the borrower's system are contemplated in order to adequately serve existing and prospective subscribers. This work would cost \$_____ and consists of: (Describe briefly.)

In the event the acquisition is made, the cost of system improvements could be reduced to \$_____ by eliminating or making unnecessary the following work: (Describe briefly.)

5. Other reasons:

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"Acquisitions" should not be confused with "consolidations." For example, one of the early allocations to a prospective telephone cooperative included approximately \$8,000 for acquisition purposes. The applicant in this instance consisted of a cooperative into which were combined ten separate farmer-owned organizations who had mutually agreed to sell their switcher lines at fair appraised values to the new cooperative. There was about 134 miles of line serving 305 subscribers involved in these proposed transactions. These were ten small acquisitions.

An alternate method of handling the existing facilities owned by the ten separate organizations would have been for them to have consolidated into a new organization. That is, the ten organizations could have effected a consolidation, formed their new cooperative with the members or stockholders of the cooperatives that consolidated receiving a credit for their appraised equity in their cooperatives prior to consolidation. The new cooperative could have then presented the assets of the combined organizations as equity.

Further experience with the telephone program and the particular circumstances of each case will indicate which of the two foregoing methods is preferable. However, it should be clearly understood that loans will not be made merely for the purpose of effecting the consolidation of telephone organizations. There must be a plan to improve and extend rural telephone service in the combined areas before the proposed consolidated system can obtain an REA loan.

